



Charitable and Nonprofit Gambling in Washington State

A Research Project for the Washington State Gambling Commission

Presented at:

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Gambling Commission Meeting

- Executive Summary
- Overall Trends
- Detailed Trends
- Regulation
- Bingo
- Rule Changes
- Other States

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**P R A C T I C A L
S O L U T I O N S**

WASHINGTON STATE GAMBLING COMMISSION

A STUDY OF CHARITABLE AND NONPROFIT GAMBLING IN THE STATE OF WASHINGTON

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CHARITABLE AND NONPROFIT GAMBLING IN THE STATE OF WASHINGTON

READER'S GUIDE TO THE REPORT

This document is organized into seven Chapters and eight Appendices.

CHAPTERS:

Chapter 1 contains **introductory material**, including a summary of the research requested by the Washington State Gambling Commission (WSGC), the Executive Summary, the major Findings and Recommendations and acknowledgement of key WSGC staff and colleagues. This Chapter is designed to give the reader an overview of the critical information in the report.

Chapter 2 outlines **trends in commercial and charitable/nonprofit (C/NP) gambling activities that are regulated by the Commission**. This chapter includes data about changes in the commercial and C/NP sectors, and about the major gambling activities (Bingo, Punchboards/Pulltabs, and Raffles) within the C/NP sector.

Chapter 3 provides a **more detailed analysis of the trends in Bingo, Punchboards/Pulltabs, and Raffles**, by stated purpose of the licensee, and for the largest licensees in each activity. Additional detail supporting this Chapter is found in Appendix C.

Chapter 4 reviews the **Commission's overall approach to the regulation of charitable and nonprofit gambling in Washington State**, identifying six factors that have been the focus of regulation. Additional detail regarding the regulation of Bingo, PB/PT and Raffles is provided in Chapter 5 (Bingo) and Appendix E (PB/PT and Raffles). Also, the approaches of Other States are outlined in Chapter 7.

Chapter 5 provides a **detailed history of the regulation of Bingo**, since much of the Commission's regulatory attention has been focused on Bingo. This Chapter includes a three-page summary of the regulatory changes in Bingo and an overall timeline for the regulatory changes.

Chapter 6 focuses on the **Commission's specific efforts to regulate net income/net return/adjusted cash flow for Bingo licensees**. This chapter shows the effects of the rule changes, in narrative and table form.

Chapter 7 includes information from Ohio, Oregon, Minnesota, Michigan, Texas and California regarding their approach to regulating charitable and nonprofit gambling. These responses are summarized and shown in table form.

APPENDICES.

Appendix A contains a **legal/political history** of gambling in Washington State, focused on the Legislature's intent for charitable and nonprofit gambling. This information is provided in both narrative and table form. The study looks at It also addresses the court cases, Attorney General's Opinions and federal enforcement efforts that affected gambling in Washington State. In the Appendix is a longer and more detailed history for those readers who might enjoy the drama and intrigue associated with the efforts to authorize gambling.

Appendix B specifically focuses on five versions of the **legislative declaration** including the two that ultimately passed (in 1973 and 1994), noting changes in language and summarizing the legislative intent as contained in the declarations that passed.

Appendix C provides **detailed data analysis** of licensees according to size (four Pools) and activity. Appendix C also contains the detailed spreadsheets that back up the data in Chapter 3.

Appendix D provides the **regulatory history and timelines for Punchboards/Pulltabs and Raffles**. The information is similar to that in Chapter 5 (Bingo) and is presented in narrative and table form.

Appendix E provides the **detail** for Chapter 6—the analysis of the rule changes involving **net income/net return/ adjusted cash flow**. Tables are provided showing the specific detail of each rule change, and showing the impact of each rule change on a “typical licensee” in each size Pool.

Appendix F provides a **financial analysis** of twenty-two sets of financial reports from nineteen of the largest licensees. The purpose of the analysis is to show the size of **these organizations' gambling revenues and expenses compared to their overall (gambling and non-gambling) operations**. The financial data were drawn from information provided for Qualification Reviews.

Appendix G contains a sampling of **standards typically applied to charitable and nonprofit organizations** in the larger charitable/nonprofit environment. These standards have applicability both to licensees and to future decisions by the Commission.

Appendix H includes biographical information about Sally Perkins, the consultant who prepared this report.

DATA ANALYSIS: READER'S GUIDE TO THE INDICATORS USED

Note: this information is also included with Chapters 2 and 3 and Appendix C, all of which contain data items defined below.

This project used several indicators to describe and understand the changes in gambling in the charitable nonprofit sector. The analyses were done by size (Pool), stated purpose, and for the largest licensees (twenty in Bingo and PB/PT and ten in Raffles) in each activity. All data were drawn from the Commission's data base and are by year.

Gambling activities: Major activities analyzed in this report were Bingo, Punchboards/Pulltabs (PB/PT) and Raffles. Other C/NP gambling activities include amusement games, fund-raising events, and social card rooms

Stated purpose: The charitable or nonprofit purpose identified by the licensee in its application for a gambling activity license.

Top 20/10 licensees: The twenty largest licensees, by Gross Receipts, in Bingo and PB/PT for each year between 1993 and 2003. The ten largest licensees, by Gross Receipts, in Raffles for each year between 1993 and 2003. The Top 20 or 10 is for the year indicated, so the licensees on the list can change from year to year.

Pool: A grouping of licensees based on size. The dividing lines between the groups are different for each gambling activity, based on how the licensees cluster. There are four Pools in each activity: Small, Medium, Large and Extra-Large.

Key indicators:

Best Year: The year in which the specific indicator is at its highest level—for example, the year in which gross receipts or the number of licensees is highest. Many of the comparisons done are between the Best Year and 2003, to give a picture of how much change has occurred since the Best Year. In some cases, 2003 is the Best Year.

Looking at whether the Best Years cluster into certain time periods (or not) gives an additional picture of how the sector and the activities within it have been affected by Commission actions, growth of competition, etc.

Size: Total Gross Receipts: Total gross receipts indicate whether the C/NP sector, and the gambling activities within it, are growing or declining.

Size: Average Gross Receipts or Gross Receipts per Licensee. The gross receipts in an activity for any given year divided by the number of licensees in that year. This indicator measures the size of the games and whether they are growing or declining. Because the number of licensees in a Pool or stated purpose changes from year to year, the average GR gives a better picture of growth or decline than only looking at the total.

Benefit to the C/NP Purpose: Total Net Income. Net income is gross receipts less prize payouts and expenses of the gambling operations. It is the total amount available to apply to the charitable or nonprofit purpose.

Total net income measures whether the amount of money being generated by gambling activities for C/NP purposes is increasing or decreasing.

Benefit to the C/NP Purpose: Average Net Income or Net Income per Licensee. This is the total net income for an activity in any given year divided by the number of licensees in that year. This indicator measures whether the amount of net income per licensee is increasing or decreasing. Because the number of licensees in a Pool or stated purpose changes from year to year, the average GR gives a better picture of growth or decline than only looking at the total.

Volume vs. Profit: Net Income as a percentage of Gross Receipts. This indicator divides net income by gross receipts to look at the relationship between growth or decline in volume (GR) and whether higher volume produces more net income. Here, the trend from year to year is the key measure.

Cost to Raise a Dollar of Net Income (CTR): Expenses of the gambling operation are divided by net income for each year. This indicator was chosen for two reasons. First, it gives a picture of how much money is being spent to raise \$1.00 of net income for the C/NP purpose. Second, it provides a comparison to other non-gambling charitable and nonprofit fundraising activities.

The Cost to Raise indicator was developed as a way to compare to other forms of nonprofit fundraising, where the cost to raise a dollar of private support should not exceed 35 cents (Better Business Bureau, Wise Giving Alliance, 2003).

Trends in CTR are useful because they show if expenses are rising faster than net income. A rapid rise in CTR for an individual licensee appears to be an indicator of potential financial problems in the gambling operation.